

POLICY ANALYSIS

THE DOHA ROUND – FREER AND FAIRER TRADE?

The Doha Round is the latest in a series of nine 'Rounds' of global trade negotiations. These Rounds have the aim of reducing trade barriers, a process that many economists believe will benefit developing and developed countries alike. The current Round started in Doha, Qatar, and was supposed to put the interests of developing countries first.

Since then, two deadlines for the conclusion of the Round have been missed: an official deadline in January 2005; and an unofficial deadline at the end of 2006. The current goal is to conclude the Round by the end of 2008.

- Optimistic estimates of the likely gains from a successful agreement are around \$182bn (£91bn) of which about half (\$90bn/£45bn) may accrue to developing countries. But under more realistic scenarios, the gains from successful completion of the Round are likely to be much smaller.
- More than 60% of any gains will come from agricultural trade reform, including a substantial cut in tariffs and subsidies. The United States and the European Union continue to have high agricultural tariffs. These account for almost 40% of the value of total agricultural output and high tariffs persist on some products.
- Agriculture reform will not benefit all developing countries equally, with large agricultural exporters receiving a disproportionate share of the gains. Some less developed countries, particularly those that are net importers of food, may become worse off as a result of the reduced subsidies on imported foodstuffs. This could have an adverse impact on the urban poor in developing countries.
- The Round has arguably focused too much on agriculture. Some tariffs on industrial goods remain high, and reform to labour-intensive services, temporary migration schemes, and efforts to increase export capacity in developing countries are important issues. These have received little attention in the agenda.
- Developing countries are anxious to avoid repeating their mistake in the (previous) Uruguay Round, where they exchanged concrete liberalisation commitments for poorly defined promises of assistance that did not materialise. An 'aid for trade' scheme, in which developed countries agree to help developing countries adjust to lower tariff barriers is yet to be agreed.
- The African, Caribbean and Pacific (ACP) countries have little to gain from the issues that remain on the agenda. Many of them already receive free market access through preferential schemes. Further general tariff reductions will reduce their trade advantage over other developing countries. These countries could block progress in the Round if they feel they are not benefiting sufficiently.

Introduction

The purpose of the World Trade Organisation (WTO) Ministerial Conference in Geneva in July 2008 is to agree a broad outline of the final agreement of the Doha Development Agenda.

The Doha Development Agenda was launched in November 2001 in Doha, Qatar, at the WTO's Fourth Ministerial Conference. The conference endorsed the 'Doha Declaration' – a statement that focused the agenda on the concerns of the developing countries.

This agenda included reform to **agriculture** (particularly reductions in subsidies and tariffs provided by developed countries), reductions in **industrial tariffs** and **special treatment** of poor countries (through exemptions from burdensome commitments, and promises of financial assistance). It also promised to redress some of the imbalances from the previous Round, particularly in the area of **public health** and **intellectual property rights**.

This 'Doha Round' - the ninth of a series of such negotiations, and the first since the formalisation of trade negotiations under the WTO¹ - came to be commonly referred to as the 'Development Round'.

The rocky road from Doha to Geneva

Less than two years after the Doha Declaration, it had become clear that the Round was seriously off track. In September 2003, the WTO convened another ministerial meeting in Cancun, Mexico, with the special task to 'take stock of progress in the [Doha Development Agenda] negotiations, provide any necessary political guidance and take decisions as necessary.' After four days the meeting ended abruptly without agreement on any of the main issues. Many of the participants in the Cancun meeting felt that the European Union and the United States had broken the promises that they had made at Doha, especially by the lack of progress in agriculture.

Many developing countries and non-governmental organisations (NGOs) viewed agriculture as the primary objective of the Round, and were disappointed that there had been little progress in the two years after Doha. When the United States and the European Union finally presented a joint paper on agricultural issues in August 2003, the framework was widely criticised by developing countries for ignoring their interests.² At the same time, agricultural lobbies within developed countries seemed to be undermining negotiations. The US Farm Bill in 2002 increased the level of support to US farmers³ and strengthened the link between

¹ The first Round, held in Geneva in 1947, resulted in the General Agreement on Tariffs and Trade (GATT), which the WTO formally replaced in 1995.

² See the statements by Indian Ambassador KM Chandrasekhar, Brazil's Ambassador Luis Felipe de Seixas Correa, and China's Ambassador Sun Zhenyu (TWN 2003).

³ The US Farm Security and Rural Investment Act (FSRIA) of May 2002 has a value of about \$190 billion over the next ten years, about \$83 billion more than under previous programmes. It sets target prices that are lower than the pre-1996 levels, but the total effective support is larger because average world commodity prices have declined and the range of commodities included in FSRIA is larger than in the 1996 FAIR Act. That act was intended to phase out farm subsidies, but even before the passage of FSRIA, farmers had achieved additional support through emergency measures.

subsidies and production decisions.⁴ One year later, the European Union's 2003 Luxembourg reform of the common agricultural policy (CAP) was also disappointing.

Doha Round timeline	
Seattle '99	President Clinton attempts to launch a 'Millennium Round', but the meeting fails amid street riots.
Doha '01	Launches the 'Development Round' with the goal of completion in January 2005
Cancun '03	Supposed to 'evaluate progress' but no progress was made in key areas, so the developing countries walked out.
July mini '04	Attempts to put the round back on track by jettisoning controversial issues.
Hong Kong '05	Limited progress on several issues, some progress on agriculture.
Geneva '08	Watch this space...

In addition to their disappointment on agriculture, developing countries were sceptical about the effects of the new items on the agenda – the so-called Singapore Issues.⁵ In the space of a month from early June 2003, 77 developing countries (over half of the WTO membership) made public statements urging that the Singapore Issues not be included as part of the Doha Round.⁶

Since these issues are not priorities for developing countries, their growing importance in the agenda prior to Cancun seemed to be at odds with the objective of the Development Round.

After Cancun, the Round was put back on track at a special meeting in July 2004, which agreed to restart the negotiations, albeit at a much lower level of ambition. Most of the Singapore Issues were dropped from the agenda. It was agreed that the poorest countries would not be asked to make new commitments in the Round – they would get the 'Round for free'.

In agriculture, progress was made in several important areas. Developed countries promised to eliminate export subsidies, to increase regulation of production subsidies, and to adopt a 'tiered formula' for tariff reductions whereby the highest tariffs would be reduced the most. These broad issues set forth in the 'July 2004 framework' set the parameters for the ensuing negotiations.

December 2005 saw the last ministerial meeting in Hong Kong. These negotiations fell short of expectations, even though the Director-General of the WTO, Pascal Lamy, claimed that 'We have managed to put the Round back on track after a period of hibernation'.

⁴ It provides counter cyclical payments (CCPs) to US farmers, which respond negatively to the world prices. This type of measure has allowed the United States to dump its farm surplus on world markets. For example, the United States exports corn at prices 20% below the cost of production, and wheat at 46% below cost.

⁵ Ministers from WTO member countries decided at the 1996 Singapore Ministerial Conference to establish three new working groups: on trade and investment; on competition policy; and on transparency in government procurement. They also instructed the WTO Goods Council to consider ways of simplifying trade procedures, an issue sometimes known as 'trade facilitation'. Because these issues were introduced to the agenda at the Singapore ministerial meeting, they are often called the 'Singapore Issues'.

⁶ CAFOD (2003) 'Singapore Issues in the WTO: What do developing countries say?'

The substantive issues agreed at Hong Kong include an end to export subsidies for agriculture (by 2013), an agreement on cotton, and broad agreements setting the direction of future negotiations in non-agricultural products and services. But many had hoped for more from the talks.

What are the potential gains?

The projected gains from concluding the Round will be determined by the content of the final agreement.

The World Bank's estimates suggest that full liberalisation of agriculture following the parameters laid out in the July 2004 agreements would lead to a total global welfare gain of \$182 billion. Developing countries are estimated to gain \$90bn (see table).

<i>Percentage of developing country welfare gains due to reform by:</i>	Agriculture and food policies	Other manufacturing. tariffs	All goods trade policies
High-income countries	29%	21 %	50 %
Developing countries	33 %	17 %	50 %
All countries' policies	62 %	38 %	100 %
Source: World Bank (2005)			

But these figures represent the most ambitious outcome: a complete reduction of export subsidies, removal of agricultural tariffs and elimination of all manufacturing tariffs. If the Round is more limited, the gains would be significantly smaller. A 75% cut in tariffs would generate global welfare gains of about \$75 billion. Other limitations which are likely to be included in the agenda - such as continued protection for a small group of 'sensitive' products - would also significantly reduce the projected gains.

So even if the Round is successfully completed, it is likely that the gains will be modest.

What else could be done to increase the gains of developing countries?

There is a broad agenda beyond agriculture that would deliver benefits to the poorest countries, but which has been almost entirely ignored in the Doha Round. For example, there is much that could be done to reduce tariffs on industrial goods. Rich countries' tariffs are heavily biased against exports from poor countries, especially labour-intensive industrial goods and processed foods. Rich countries collect tariffs four times higher on their imports from poor countries than imports from other rich countries.

There is also much that could be done to increase the mobility of workers. Migration - particularly temporary schemes to allow workers from developing countries to work on short term projects in rich countries - would enable workers from poor countries to fill labour shortages in rich countries and send part of their pay back to their families. The flow of remittances from migrant workers in rich countries is an important source of development finance and now exceeds total aid flows from rich countries.

Finally, the Doha Round needs to get serious about 'aid for trade'. In recent years the European Union and the United States have slashed tariffs to the world's poorest countries under special schemes granting them free market access. Yet despite the good intentions behind these schemes, we have witnessed almost no increase in the volume of exports from beneficiary countries.

This shows that for the poorest countries, market access is not enough. Without assistance to improve crumbling infrastructure, boost product quality, and connect to international supply chains, tariff cuts have little effect on trade from the very poorest countries.

Another explanation for the very low responsiveness from the poorest countries to the tariff concessions is that they are largely based on the Generalised System of Preferences (GSP). Under the GSP, rich countries can take their concessions away just as easily as they give them. This means that there is a perennial implicit threat that 'too many exports' could induce the withdrawal of preferences.

Clearly, this does little to promote private interest in exporting activities. If the rich countries committed to making the tariff concessions under the GSP permanent, this would reduce the risk associated with exporting, thus encouraging entrepreneurship in export businesses in the poorest countries.

A successful Development Round will partly depend on how it is implemented. Trade reform can be costly – it takes time for new industries to emerge to replace industries that cannot survive in the face of global competition. These adjustment costs are the price of the benefits of trade liberalisation.

It is these costs and the trade benefits that determine the net effect of trade reform for each country. If the Development Round is to bring widespread benefits, the developed world must make a stronger commitment than it has in the past to help the developing world not only to bear the costs, but also to avail itself of the opportunities provided by a more integrated global economy.

Evaluation

Many developing countries feel that the low ambition of the Round following the collapse at Cancun is disappointing, and that the Round has failed to deliver on its development promise.

This situation is unfortunate, and offers the possibility that no agreement will be reached in Geneva. This would be unfortunate, since the world has much to gain from a Development Round. But achieving this will require major changes in the negotiating positions of both the developed and developing countries.

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